

Theresa May's Florence speech: much ado about nothing

Fabian Zuleeg

Theresa May has held her eagerly awaited Florence speech, signalling some willingness to compromise on a key sticking point of the Article 50 negotiations, the financial obligations of the United Kingdom's membership, as well as finally recognising that a time-limited "implementation" deal will be necessary. Furthermore, she signalled some more softening on citizens' rights and on the role of European regulation.

Sufficient progress?

A willingness to compromise will be cautiously welcomed by the EU27; there was a growing sense of frustration about the UK's seeming inability to agree on exiting the EU issues, given the divisive debate at home. At the same time, the EU27, including the Union's negotiator and the European Parliament, will highlight that this is nowhere near enough to constitute 'sufficient progress', the hurdle they have set to move on to negotiating the framework for the long-term relationship between the UK and the EU; in any case, there is not real detail yet about what the Prime Minister is saying. Not only did she shy away from being specific about the size of financial obligations, but her speech has left far too much uncertainty across all negotiation dossiers. She did not really address the complexity of the issues at stake at the Northern Irish border at all and the concessions on citizens' rights are vague and do not go far enough.

While the idea of a transition period (not, as she stated, "an implementation period") will not be ruled out, from the EU27 perspective it will have to be the continuation of the *status quo* – whereby the UK bears all obligations of membership – but without enjoying political rights. A two-year transition period also needs to have an objective, but for now, the UK government is unwilling or unable to answer the fundamental question of the landing zone: which destination are we bound to? Her suggestion of a bespoke arrangement – neither the Norway model nor the Canada deal – lacks sufficient detail to serve as a building block towards a deal.

The political backlash

A lukewarm response to her speech will be a problem for Theresa May. The Brexiteers in her government and in the party, as well as the Eurosceptic press, will attack her for accommodating EU demands as they see it, without even being able to move the negotiations onto the next stage. While many (but by no means all) Conservatives have accepted that some payment could be made during a transition period as a 'fee' for market access, the idea that the UK has financial obligations *vis-à-vis* the EU that must be met before talks about the future are possible, is anathema to most of them.

This puts Theresa May in a precarious position ahead of the upcoming Conservative Party Conference. Not known for its pro-European leanings at the best of times, there might well be a significant minority, including some leadership contenders, who will be out for blood. For a Prime Minister, weakened by the indecisive General Election earlier this year, this is a difficult situation to handle. In addition, with the ever-present threat of the party splitting over the EU issue, it is obvious that she must serve some read meat to the Eurosceptic majority of the party activists.

Reversal and crash?

But what will it be? Having signalled limited concessions to the EU27 in her Florence speech, she could take a principled stance: asking her party for time to conclude the negotiations and then judge her on the outcome. This might work – even the leadership contenders might bide their time temporarily, being reluctant to take over the reins when the situation is so precarious and the impact on the economy is becoming apparent.

Alternatively, she might continue to attempt to fudge the issue as she did in her Florence speech. Signalling that the UK will still have the cake and eat it, she could, for example, claim that the payments are conditional on making progress in the negotiations, and that money will only be forthcoming if the UK has full market access and a good exit deal, including an “implementation” period. This will be flatly contradicted by the EU27, who will never agree to such a deal that is the complete negation of the sequencing approach. But it might be enough to get Theresa May through the Conservative Party Conference.

The price of her political survival would be to further back the UK into a corner. Such a speech at the Party Conference would further increase the EU27’s distrust of the UK. It would make a European Council decision on sufficient progress rather unlikely, and a final withdrawal deal far-flung.

But the situation could become even worse. Theresa May might choose, or might be pushed, to give a very different speech at the Party Conference. She might take the lukewarm reception of her Florence speech as a pretext for a much more nationalistic stance. The argument would be that the EU, and especially those bureaucrats in Brussels, are not flexible and innovative enough to accept the concessions of the UK, so there is no point in negotiating with these underlings. This would, in effect, suspend the talks. There would be a strong attempt to shift the blame to Brussels, while at the same time claiming that EU leaders, especially in Germany, will overrule the bureaucrats in the end – which they will not do.

Both scenarios would almost inevitably lead to a crash – i.e. no deal at all. The Brussels negotiators are not divorced from member states’ interests; they are the embodiment of it. The negotiation process, including sequencing, is quintessentially reflecting the combined national economic and, crucially, political interests of the EU27 and will not be altered to accommodate UK domestic political difficulties.

What can the EU do?

But, unfortunately, domestic UK politics has its own dynamics, with individual and party interests in danger of doing ever more serious economic and political harm to the UK. In this situation, the EU27 and the institutions should try to do what they can to save the political system in the UK from itself. But the means to influence are rather limited.

What the EU cannot do is concede to the UK’s demands, which amount to cherry picking. This is not in the interest of the EU’s unity and the functioning of the Union, and it will never be accepted by the member states. In any case, only by having a strong and unified position might the UK realise the danger this course of action puts them into.

But where does this leave the EU in relation to Theresa May’s Florence speech? The best reaction would be virtually no reaction at all. The EU27 should welcome the UK’s speech, but note that the concrete details will hopefully be discussed in the next rounds of negotiations. In addition, the EU27 should show that they remain united behind their negotiating team in Brussels. This might be enough to prevent Theresa May from going too far in her Party Conference speech, reducing, but not eliminating, the probability that we will reach no deal at all.

Fabian Zuleeg is Chief Executive and Chief Economist at the European Policy Centre (EPC).